

31 July 2007

Mr. Hans Jürgen Stehr
Chairman, CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Str. 8
D-53153 Bonn
Germany

Dear Chair,

I write to you on behalf of the International Emission Trading Association (IETA) in response to the CDM EB's call for public input on non-binding best practice examples on the demonstration of additionality to assist the development of PDDs, in particular for SSC project activities.

IETA has always been of the opinion that the existing way of demonstrating additionality goes beyond what has been stipulated by the Marrakech Accords. Demonstrating the intent by project developers is impossible and beyond the mandate given by the COP. Instead IETA believes that the additionality demonstration should focus on establishing a baseline based on what would happen in the absence of the CDM and to show that the emissions of the project activity are below this baseline.

This submission brings forward first of all suggestions of how to enhance the available guidance for small-scale (SSC) project activities as well as proposing an alternatives approach to the existing additionality tool for large-scale (LSC) project activities. The letter is therefore divided into two parts, firstly, presenting a way of how to improve the existing guidance for demonstrating additionality for SSC project activities based on the experience that have been gained by project developers by adding examples and clarifications to the barriers that have to be addressed according the guidance. Secondly, the letter will look into alternative approaches to demonstrate additionality, which could allow for more flexibility, transparency and lower transaction and development costs.

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Small-scale Project Activities

With regard to the existing guidance for SSC project activities, IETA suggests to improve its practicability by adding examples and/or case studies to each barrier type listed. To illustrate how additionality has to be demonstrated in various cases there should be examples given in particular for the following areas:

- 1) Small installations
- 2) Energy efficiency
- 3) Projects in least developed countries
- 4) Existing facilities
- 5) New facilities
- 6) Projects involving multiple stakeholders (e.g. PoA)

Furthermore, additional guidance should be provided to clarify certain requirements and to elaborate on the scope of the barriers. IETA thinks that specific clarifications are necessary in the following areas:

a) **Investment Barrier:**

Under this analysis it has to be shown that a financially more viable alternative to the project activity would have led to higher emissions. To make the SSC guidance clearer IETA suggests including the elaboration on this barrier analysis, which is provided in the Combined Tool under step 2a). Furthermore, since the lack of precise requirements on the source of data has led to review requests IETA would like to see further clarification on the sources of data for demonstrating additionality.

b) **Technological Barrier:**

Under this step it is to prove that the proposed project activity is additional since a less technologically advanced alternative to the project activity involves lower risks due to the performance uncertainty or low market share of the new technology adopted for the project activity and would have led to higher emissions. To make the requirements under this approach more explicit IETA suggests taking in clarifications included in the Combined Tool under Step 2a) into the SSC guidance, as well as identification/further exemplification of types of risks that should be assessed (e.g. operational, commercial, legal, institutional)



c) Common Practice Analysis:

For the cases where prevailing practice or existing regulatory or policy requirements would have led to implementation of a technology with higher emissions the clarification included in the Combine Tool under Step 4 should be included in the SSC guidance. In particular it should be highlighted that “Other registered CDM project activities are not to be included in this analysis”.

In addition to the 4 barriers listed in SSC guidance (Attachment A to Appendix B), IETA proposes to include a benefits analysis, under which project participants shall provide an explanation to demonstrate that the project activity would not have occurred anyway due to at least one of barriers/reasons outlined below.

d) Benefits analysis:

Demonstrate that a commercially/strategically more viable alternative to the project activity would have led to higher emissions by analysing non-quantifiable benefits that a project and alternative scenarios could provide. Such qualitative analysis is certainly less obvious than a financial assessment but those benefits should also count in demonstrating additionality. Furthermore, this approach is also inline with the ‘net benefits approach’ proposed in the GHG Protocol for Project Accounting¹.

Beyond the suggestions elaborated upon above the existing guidance could be improved and be made more practical by adding sector specific guidance in either the technological and/or common practice barrier analyses.

Large-scale Project Activities

In regards to the demonstration of additionality of LSC project activities IETA would like to bring forward an approach which should be made available as an alternative and optional instrument to the existing additionality tool for certain types of projects. IETA advocates the idea of establishing *sectoral benchmarks*, which should be used to demonstrate additionality as well as defining the baselines in the CDM. The objectives pursued with this concept are:

¹ <http://www.ghgprotocol.org>



- a) Guaranteeing environmental integrity, notably the environmental additionality, of CDM projects
- b) Assuring that emission reductions are real
- c) Creating real business incentives for reducing CO₂ emissions beyond business-as-usual
- d) Bringing objectivity, transparency and integrity in the demonstration of additionality, the setting of the baseline and validation of projects
- e) Simplifying CDM methodologies as well as simplifying and accelerating the CDM application and validation process

IETA acknowledges that this approach is not applicable to every sector, technology or project type. However, in certain sectors, e.g. the cement, steel, aluminium, lime and power industry, this approach has a high potential and should therefore not be omitted from the CDM process.

The idea is that the benchmarks are defined per sector (e.g. cement, electric power) as a given percentile of CO₂ or energy performance (i.e. CO₂ emission per unit of product or service) in a given region. In order to use this approach both for demonstrating additionality and establishing the baseline IETA suggests a concept, which is based on twin-benchmarks:

- 1) The additionality benchmark, demonstrating additionality
- 2) The baseline benchmark, setting the baseline emission, an approach envisioned under paragraph 48 a) of the Marrakech Accords

The additionality benchmark is set at a stringent percentile level, e.g. the 20-percentile, representative for best practice performance in the region. Every project from which the performance is better than or equal to this additionality benchmark is by definition best practice and recognized as additional.

The baseline benchmark is set at a performance level that is representative to “what would happen in the absence of the CDM incentive”. It is set at a level that is higher than the additionality benchmark but lower than current average performance in the region, reflecting normal improvement of performance.

The additionality and baseline benchmarks are defined on the basis of the regionally defined frequency distribution of the current performance of all or a representative sample of installations in a region, e.g. the cement production installations in a region or the power generation in a



region. Whereas the frequency distributions will be specific for any given region (they will differ e.g. as a function of regionally available natural resources), the stringency level of the additionality and baseline benchmarks can be standardised regionally or continentally.

In the case of the twin-benchmarking concept any proposed project from which the emission performance is better than the additionality benchmark is demonstrated to be additional. In that case, the baseline emission is equal to the standardised baseline benchmark multiplied by the production volume realized by the project. The volume of emission reductions is then equal to the difference between the baseline emission and the project emission.

Any proposed project from which the emission performance is inferior to the additionality benchmark, but better than the baseline benchmark is not additional. Although its performance is better than what would have happened in the absence of CDM, the improvement is not recognized to be sufficient for being CDM eligible. The project proposal is therefore not eligible and no emission reductions can be certified. The stringency level of the additionality and baseline benchmarks avoid free riders and gives incentive for high quality, therefore low emission, projects.

Any proposed project with emission performance inferior to the additionality benchmarks is obviously not additional or CDM eligible.

Environmental integrity is guaranteed through the stringency level of the additionality benchmark (the lower the percentile, the “more additional”). Setting the baseline at the same level as the additionality benchmark would either jeopardize the environmental additionality (if the additionality benchmark would be set at a higher level) or would jeopardize the incentive to reduce emissions if the baseline benchmark would be set at such a low level that only a marginal volume of credits can be realized. IETA is therefore convinced that the concept of the twin benchmarks combines environmental integrity with economical incentive. Furthermore, this approach is very transparent in all its aspects: demonstration of additionality, setting of the baseline, validation, and certification. Due to this transparency and its simplicity, the CDM process could be streamlined and accelerated significantly.

IETA believes that this concept is a viable alternative to the existing additionality tool and applicable to a number of sector, project types and certain technologies, and is convinced that the suggestion of having a second instrument to demonstrate additionality is inline with the Boards’ current ambition to allow for more flexibility within the design of methodologies.



IETA trusts that the above comment will assist the Board in proceeding in a manner that will benefit the overall process of the CDM.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrei Marcu'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Andrei Marcu
President and CEO, IETA